

**REPORT OF THE AUDIT OF THE
ESTILL COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2006**

**ROSS & COMPANY, PLLC
Certified Public Accountants**

**800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
Facsimile (502) 499-9132
www.rosscpas.com**

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Wallace C. Taylor, Estill County Judge/Executive
Members of the Estill County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Estill County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Estill County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Estill County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Estill County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.


The county has not presented the management's discussion and analysis that the Government Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Wallace C. Taylor, Estill County Judge/Executive
Members of the Estill County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Estill County, Kentucky's basic financial statements. The accompanying supplement information, combining fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of State and Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditure of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated February 22, 2007, on our consideration of Estill County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC
Certified Public Accountants

February 22, 2007

ESTILL COUNTY OFFICIALS

For The Year Ended June 30, 2006

Fiscal Court Members:

Wallace C. Taylor	County Judge/Executive
Kevin Williams	Magistrate
Greg Hall	Magistrate
Darrell Johnson	Magistrate

Other Elected Officials:

Rodney Davis	County Attorney
Jim Morris	Jailer
Sherry Fox	County Clerk
Charlene Baker	Circuit Court Clerk
Gary Freeman	Sheriff
Deborah Barnes	Property Valuation Administrator
John Toler	Coroner

Appointed Personnel:

Laurel Ann Rogers	County Treasurer
Christine Brandenburg	Finance Officer

ESTILL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

ESTILL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	Primary Government		
	Governmental	Business-Type	Totals
	Activities	Activities	
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 569,123	\$ 1,239	\$ 570,362
Total Current Assets	<u>569,123</u>	<u>1,239</u>	<u>570,362</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Construction In Progress	119,800		119,800
Land and Land Improvements	660,000		660,000
Buildings	1,111,623		1,111,623
Other Equipment	913,580		913,580
Vehicles and Equipment	780,776		780,776
Infrastructure Assets - Net of Depreciation	<u>513,646</u>		<u>513,646</u>
Total Noncurrent Assets	<u>4,099,425</u>		<u>4,099,425</u>
Total Assets	<u>4,668,548</u>	<u>1,239</u>	<u>4,669,787</u>
LIABILITIES			
Current Liabilities:			
Revenue Bonds	8,214		8,214
Financing Obligations	<u>139,854</u>		<u>139,854</u>
Total Current Liabilities	<u>148,068</u>		<u>148,068</u>
Noncurrent Liabilities:			
Revenue Bonds	87,523		87,523
Financing Obligations	<u>1,150,697</u>		<u>1,150,697</u>
Total Noncurrent Liabilities	<u>1,238,220</u>		<u>1,238,220</u>
Total Liabilities	<u>1,386,288</u>		<u>1,386,288</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 2,713,137	\$	\$ 2,713,137
Unrestricted	<u>569,123</u>	<u>1,239</u>	<u>570,362</u>
Total Net Assets	<u>\$ 3,282,260</u>	<u>\$ 1,239</u>	<u>\$ 3,283,499</u>

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006

ESTILL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 781,980	\$	\$ 302,485	\$ 89,915
Protection to Persons and Property	1,268,004	105,101	589,095	
General Health and Sanitation	241,754	179,138	17,221	
Social Services	58,552			
Roads	1,135,108		1,361,317	
Debt Service	61,374			
Capital Projects	226,978			
Total Governmental Activities	3,773,750	284,239	2,270,118	89,915
Business-type Activities:				
Jail Canteen	1,816	1,616		
Total Business-type Activities	1,816	1,616		
Total Primary Government	\$ 3,775,566	\$ 285,855	\$ 2,270,118	\$ 89,915
General Revenues:				
Taxes:				
Real Property Taxes				
Personal Property Taxes				
Motor Vehicle Taxes				
Other Taxes				
Excess Fees				
Licenses and Fees				
Miscellaneous Revenues				
Accrued Interest Received				
Total General Revenues				
Change in Net Assets				
Net Assets - Beginning (Restated)				
Net Assets - Ending				

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (389,580)	\$	\$ (389,580)
(573,808)		(573,808)
(45,395)		(45,395)
(58,552)		(58,552)
226,209		226,209
(61,374)		(61,374)
(226,978)		(226,978)
(1,129,478)		(1,129,478)
	(200)	(200)
	(200)	(200)
(1,129,478)	(200)	(1,129,678)
216,866		216,866
1,681		1,681
63,468		63,468
778,798		778,798
42,177		42,177
18,090		18,090
141,616		141,616
7,248		7,248
1,269,944		1,269,944
140,466	(200)	140,266
3,141,794	1,439	3,143,233
\$ 3,282,260	\$ 1,239	\$ 3,283,499

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

ESTILL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>CSEPP Fund</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and Cash Equivalents	\$ 99,440	\$ 134,960	\$ 867	\$ 245,654	\$ 88,202	\$ 569,123
Total Assets	<u>\$ 99,440</u>	<u>\$ 134,960</u>	<u>\$ 867</u>	<u>\$ 245,654</u>	<u>\$ 88,202</u>	<u>\$ 569,123</u>
FUND BALANCES						
Reserved For:						
Encumbrances	\$ 18,642	\$ 32,982	\$ 13,705	\$ 3,474	\$ 3,311	\$ 72,114
Unreserved:						
General Fund	80,798					80,798
Special Revenue Funds		101,978	(12,838)	242,180	84,891	416,211
Total Fund Balances	<u>\$ 99,440</u>	<u>\$ 134,960</u>	<u>\$ 867</u>	<u>\$ 245,654</u>	<u>\$ 88,202</u>	<u>\$ 569,123</u>

Reconciliation of the BalanceSheet - Governmental Funds to Statement of Changes In Net Assets:

Total Fund Balances	\$ 569,123
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	5,750,067
Accumulated Depreciation	(1,650,642)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(1,290,551)
Bonded Debt	<u>(95,737)</u>
Net Assets Of Governmental Activities	<u>\$ 3,282,260</u>

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

ESTILL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>CSEPP Fund</u>
REVENUES				
Taxes	\$ 1,055,900	\$	\$	\$
In Lieu Tax Payments		4,914		
Excess Fees	42,177			
Licenses and Permits	18,089			
Intergovernmental	296,611	1,337,413	96,496	480,860
Charges for Services	213,113		7,668	
Miscellaneous	38,143	95,240	4,185	3,150
Interest	6,733	434	40	
Total Revenues	<u>1,670,766</u>	<u>1,438,001</u>	<u>108,389</u>	<u>484,010</u>
EXPENDITURES				
General Government	490,481			
Protection to Persons and Property	326,366		402,363	382,368
General Health and Sanitation	66,592			
Social Services	139,184			1,493
Roads		1,328,859		
Debt Service				
Principal	80,380	6,685		
Interest	53,474	7,900		
Capital Projects	94,041	120,404		
Administration	328,871	142,366	86,121	32,475
Total Expenditures	<u>1,579,389</u>	<u>1,606,214</u>	<u>488,484</u>	<u>416,336</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>91,377</u>	<u>(168,213)</u>	<u>(380,095)</u>	<u>67,674</u>
Other Financing Sources (Uses)				
Debt Issuance	200,119	117,149		
Transfers From Other Funds	222,261	287,025	376,500	
Transfers To Other Funds	(663,525)	(149,800)		
Total Other Financing Sources (Uses)	<u>(241,145)</u>	<u>254,374</u>	<u>376,500</u>	
Net Change in Fund Balances	(149,768)	86,161	(3,595)	67,674
Fund Balances - Beginning	249,208	48,799	4,462	177,980
Fund Balances - Ending	<u>\$ 99,440</u>	<u>\$ 134,960</u>	<u>\$ 867</u>	<u>\$ 245,654</u>

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Non- Major Funds	Total Governmental Funds
\$	\$ 1,055,900
	4,914
	42,177
	18,089
148,653	2,360,033
63,458	284,239
898	141,616
41	7,248
<u>213,050</u>	<u>3,914,216</u>
6,350	496,831
46,929	1,158,026
64,507	131,099
1,275	141,952
8,103	1,336,962
	87,065
	61,374
12,533	226,978
570	590,403
<u>140,267</u>	<u>4,230,690</u>
<u>72,783</u>	<u>(316,474)</u>
	317,268
	885,786
<u>(72,461)</u>	<u>(885,786)</u>
<u>(72,461)</u>	<u>317,268</u>
322	794
87,880	568,329
<u>\$ 88,202</u>	<u>\$ 569,123</u>

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

ESTILL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$	794
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	669,093	
Depreciation Expense	(252,583)	
Assets Disposed Of, Net Book Value	(46,635)	

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Financing Obligation Proceeds	(317,268)	
Financing Obligations Principal Payments	79,340	
Bond Payments	<u>7,725</u>	

Change in Net Assets of Governmental Activities	\$	<u><u>140,466</u></u>
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ESTILL COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

ESTILL COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 1,239
Total Current Assets	<u>1,239</u>
Net Assets	
Unrestricted	<u>1,239</u>
Total Net Assets	<u><u>\$ 1,239</u></u>

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

ESTILL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 1,616
Total Operating Revenues	<u>1,616</u>
Operating Expenses	
Entertainment	893
Miscellaneous	<u>923</u>
Total Operating Expenses	<u>1,816</u>
Operating Income (Loss)	<u>(200)</u>
 Total Net Assets - Beginning	 <u>1,439</u>
Total Net Assets - Ending	<u><u>\$ 1,239</u></u>

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

ESTILL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 1,616
Claims Paid	(1,816)
Net Cash Provided By Operating Activities	(200)
Net Increase (Decrease) in Cash and Cash Equivalents	(200)
Cash and Cash Equivalents - July 1, 2005	1,439
Cash and Cash Equivalents - June 30, 2006	\$ 1,239
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	Jail Canteen Fund
Operating Income (Loss)	\$ (200)
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities	
Net Cash Provided By Operating Activities	\$ (200)

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transaction, with few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivables are recognized on the Statement of Assets, but note receivables are not included and recognized on the Balance Sheet - Governmental Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet-Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Estill County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service.

C. Estill County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Estill County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Estill County, Kentucky.

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt-consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets- resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by laws through constitutional provisions or enabling legislation, 3) unrestricted net assets- those assets that do not meet the definition of restricted net assets or invested capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) operating grants and contributions and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internal dedicated resources such as taxes and other unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

Governmental Funds

The government reports the following major governmental funds:

General Fund – This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund – This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, county road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Jail Fund – The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, other counties for housing prisoners and transfers from the General Fund. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

CSEPP Fund – These funds are received from the Department of Homeland Security and are to be used solely for the purpose of providing emergency preparedness in case of an accident involving the stockpile of chemical weapons at the Blue Grass Army Depot in Madison County. In no event shall these funds be used for expenses relating to the administration of government. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, State Grants Fund, HB 502 Fund, CMRS Fund, Homeland Security Fund, Planning and Preparedness Fund, EMS Tower Fund, Emergency Management Fund and CERT Fund.

Special Revenues Funds:

The Road Fund, Jail Fund, CSEPP Fund, Local Government Economic Assistance Fund, State Grants Fund, HB 502 Fund, CMRS Fund, Homeland Security Fund, Planning and Preparedness Fund, EMS Tower Fund, Emergency Management Fund and CERT Fund are presented as special revenue funds. Special revenue funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Fund

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise fund is charges to customers for sales in the Jail Canteen Fund. Operating expenses for enterprise fund include the cost of sales and services, and administrative expenses.

The primary government reports the following major proprietary fund:

Jail Canteen Fund – The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United State government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (road and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land is not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 10,000	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	5-10
Infrastructure	\$ 10,000	10-50

G. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds and capital leases are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Account Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the statement of net assets and statement of activities, however encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the Fund Balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 620,000	\$ 40,000	\$	\$ 660,000
Construction In Progress	45,835	119,800	(45,835)	119,800
Total Capital Assets Not Being Depreciated	665,835	159,800	(45,835)	779,800
Capital Assets, Being Depreciated:				
Buildings	1,568,927	103,069		1,671,996
Other Equipment	1,345,509	226,494	(6,000)	1,566,003
Vehicles and Equipment	1,183,848	21,500	(35,000)	1,170,348
Infrastructure	403,690	158,230		561,920
Total Capital Assets Being Depreciated	4,501,974	509,293	(41,000)	4,970,267
Less Accumulated Depreciation For:				
Buildings	(520,246)	(40,127)		(560,373)
Other Equipment	(535,275)	(122,848)	5,700	(652,423)
Vehicles and Equipment	(362,835)	(61,237)	34,500	(389,572)
Infrastructure	(19,903)	(28,371)		(48,274)
Total Accumulated Depreciation	(1,438,259)	(252,583)	40,200	(1,650,642)
Total Capital Assets, Being Depreciated, Net	3,063,715	256,710	(800)	3,319,625
Governmental Activities Capital Assets, Net	\$ 3,729,550	\$ 416,510	\$ (46,635)	\$ 4,099,425

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 64,272
Protection to Persons and Property	109,478
General Health and Sanitation	3,723
Social Services	1,600
Roads, Including Depreciation of General Infrastructure Assets	<u>73,510</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 252,583</u></u>

Note 4. Long-term Debt

A. Refinancing Agreements

On December 31, 2004, Estill County entered into a \$260,000 lease agreement with Kentucky Association of Counties. The purpose of this lease was to retire a portion of the counties outstanding debt. As of June 30, 2006, the principal outstanding was \$211,604. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 35,394	\$ 9,585
2008	36,448	8,117
2009	37,536	6,409
2010	38,655	4,504
2011	39,806	2,545
2012	<u>23,765</u>	<u>557</u>
Totals	<u><u>\$ 211,604</u></u>	<u><u>\$ 31,717</u></u>

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Long-term Debt (Continued)

B. Refinancing Agreement

On December 31, 2004, Estill County entered into a \$825,000 lease agreement with Kentucky Association of Counties. The purpose of this lease was to retire a portion of the counties outstanding debt. As of June 30, 2006, the principal outstanding was \$761,679. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 46,309	\$ 36,306
2008	47,688	34,783
2009	49,111	32,716
2010	50,573	30,226
2011	52,081	27,643
2012-2016	284,633	97,071
2017-2020	231,284	23,093
Totals	<u>\$ 761,679</u>	<u>\$ 281,838</u>

C. Tractor/Mower

On August 20, 2005, Estill County entered into a \$50,000 lease agreement with Kentucky Association of Counties. The purpose of this lease was for the purchase of a tractor/mower. This is a five-year lease, which requires annual principal payments of \$10,000 and monthly interest and fee payments. As of June 30, 2006, the principal outstanding was \$50,000. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 10,000	\$ 2,002
2008	10,000	1,676
2009	10,000	1,257
2010	10,000	756
2011	10,000	60
Totals	<u>\$ 50,000</u>	<u>\$ 5,751</u>

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Long-term Debt (Continued)

D. Building and Land (West Care)

On February 28, 2006, Estill County entered into a \$85,000 lease agreement with Kentucky Association of Counties. The purpose of this lease was for the purchase of building and land. This is a six-year lease, which requires annual principal payments and monthly interest and fee payments. As of June 30, 2006, the principal outstanding was \$85,000. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 15,000	\$ 3,494
2008	15,000	2,947
2009	15,000	2,288
2010	15,000	1,537
2011	15,000	785
2012	10,000	61
Totals	<u>\$ 85,000</u>	<u>\$ 11,112</u>

E. Case Backhoe

On June 29, 2006, Estill County entered into a five-year lease for \$67,149 with Citizens Guaranty Bank. The purpose of this lease was for the purchase of a Case backhoe. This is a five-year lease, which requires annual principal and interest payments. As of June 30, 2006, the principal outstanding was \$67,149. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 14,645	\$ 450
2008	12,034	3,061
2009	12,729	2,366
2010	13,478	1,617
2011	14,263	832
	<u>\$ 67,149</u>	<u>\$ 8,326</u>

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Long-term Debt (Continued)

F. 911 Upgrade

On June 29, 2006, Estill County entered into a five-year lease for \$115,119 with Citizens Guaranty Bank. The purpose of this lease was for upgrading the county's 911 system. This is a five-year lease, which requires monthly principal and interest payments. As of June 30, 2006, the principal outstanding was \$115,119. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 18,506	\$ 5,923
2008	21,573	2,078
2009	22,880	3,771
2010	24,249	2,400
2011	25,701	949
2012	2,210	10
	<u>\$ 115,119</u>	<u>\$ 15,131</u>

G. Long Term Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority (KLCFCA), an independent corporation agency and instrumentality of Kentucky, issued revenue bonds in the amount of \$206,362 for the purpose of constructing a jail facility. The fiscal court subsequently, April 1, 1987, entered into a lease and participation agreement with KLCFCA for \$206,362 principal plus interest on the issue. In fiscal year 2005 the revenue bonds were refinanced by the state with a savings of \$11,945 for the county. The principal outstanding as of June 30, 2006, was \$95,737. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2007	\$ 8,214	\$ 5,809
2008	8,735	5,272
2009	9,289	4,701
2010	9,878	4,093
2011	10,505	3,447
2012-2015	49,116	6,467
Totals	<u>\$ 95,737</u>	<u>\$ 29,789</u>

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Long-term Debt (Continued)

H. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 103,462	\$ 0	\$ 7,725	\$ 95,737	\$ 8,214
Financing Obligations	1,052,623	317,268	79,340	1,290,551	139,854
Governmental Activities					
Long-term Liabilities	<u>\$ 1,156,085</u>	<u>\$ 317,268</u>	<u>\$ 87,065</u>	<u>\$ 1,386,288</u>	<u>\$ 148,068</u>

Note 5. Interest on Long-term Debt and Financing Obligations

Debt service on the Statement of Activities includes \$55,059 in interest on financing obligations and \$6,315 in interest on bonds.

Note 6. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for non-hazardous employees was 10.98 percent.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspect of benefits for non-hazardous employees includes retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Insurance

For the fiscal year ended June 30, 2006, Estill County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 8. Subsequent Events

In fiscal year 2006-2007 the county borrowed \$250,0000 from Citizens Guaranty Bank with the understandings that Administrative Office of the Courts (AOC) and grants were to be used to repay most of this note. In addition, the county in fiscal year 2006-2007 entered into a \$100,000 line of credit with Citizens Guaranty Bank.

Note 9. Prior Period Adjustments

The beginning cash balance for the General Fund was adjusted by \$66 for prior year voided checks. The Road Fund beginning balance was decreased by \$16 due to an error in the prior year audit. In addition, total accumulated depreciation decreased by a net of \$36,544. Capital assets were increased by \$10,000 and long-term debt was decreased by \$11,945 due to the Kentucky Local Correctional Facilities Construction Authority (KLCFCA) refinancing revenue bonds and passing the saving on to the counties. All adjustments amounted to a total restated increase of \$58,539 for beginning net assets.

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2006

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,001,741	\$ 1,007,195	\$ 1,055,900	\$ 48,705
Excess Fees	40,100	40,100	42,177	2,077
Licenses and Permits	21,100	21,316	18,089	(3,227)
Intergovernmental	141,175	242,142	296,611	54,469
Charges for Services	279,560	302,536	213,113	(89,423)
Miscellaneous	53,075	163,981	38,143	(125,838)
Interest	160	160	6,733	6,573
Total Revenues	<u>\$ 1,536,911</u>	<u>\$ 1,777,430</u>	<u>\$ 1,670,766</u>	<u>\$ (106,664)</u>
EXPENDITURES				
General Government	371,692	532,913	490,481	42,432
Protection to Persons and Property	356,308	358,081	326,366	31,715
General Health and Sanitation	85,600	72,192	66,592	5,600
Social Services	155,000	169,269	139,184	30,085
Debt Service:				
Principal	40,000	114,460	80,380	34,080
Interest	12,000	5,360	53,474	(48,114)
Capital Projects		99,030	94,041	4,989
Administration	334,800	337,627	328,871	8,756
Total Expenditures	<u>\$ 1,355,400</u>	<u>\$ 1,688,932</u>	<u>\$ 1,579,389</u>	<u>\$ 109,543</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>181,511</u>	<u>88,498</u>	<u>91,377</u>	<u>2,879</u>
OTHER FINANCING SOURCES (USES)				
Lease Proceeds		85,000	200,119	115,119
Transfers From Other Funds	300,000	300,000	222,261	(77,739)
Transfers To Other Funds	(496,511)	(496,511)	(663,525)	(30,989)
Total Other Financing Sources (Uses)	<u>\$ (196,511)</u>	<u>\$ (111,511)</u>	<u>\$ (241,145)</u>	<u>\$ 6,391</u>
Net Changes in Fund Balance	(15,000)	(23,013)	(149,768)	9,270
Fund Balance - Beginning	<u>15,000</u>	<u>73,013</u>	<u>249,208</u>	<u>176,195</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 50,000</u>	<u>\$ 99,440</u>	<u>\$ 185,465</u>

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu of Taxes	\$ 5,000	\$ 5,000	\$ 4,914	\$ (86)
Intergovernmental	963,750	1,065,580	1,337,413	271,833
Charges for Services	500,000	500,000		
Miscellaneous	50,000	58,422	95,240	36,818
Interest	300	300	434	134
Total Revenues	<u>\$ 1,519,050</u>	<u>\$ 1,629,302</u>	<u>\$ 1,438,001</u>	<u>\$ 308,699</u>
EXPENDITURES				
Roads	1,105,177	1,367,178	1,328,859	38,319
Debt Service:				
Principal	100,000	877	6,685	(5,808)
Interest	22,000	21,271	7,900	13,371
Capital Projects	210,000	137,109	120,404	16,705
Administration	132,303	184,112	142,366	41,746
Total Expenditures	<u>\$ 1,569,480</u>	<u>\$ 1,710,547</u>	<u>\$ 1,606,214</u>	<u>\$ 104,333</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(50,430)</u>	<u>(81,245)</u>	<u>(168,213)</u>	<u>413,032</u>
OTHER FINANCING SOURCES (USES)				
Lease Proceeds			117,149	117,149
Transfers From Other Funds	182,430	182,430	287,025	104,595
Transfers To Other Funds	(150,000)	(150,000)	(149,800)	200
Total Other Financing Sources (Uses)	<u>\$ 32,430</u>	<u>\$ 32,430</u>	<u>\$ 254,374</u>	<u>\$ 221,944</u>
Net Changes in Fund Balance	(18,000)	(48,815)	86,161	634,976
Fund Balance - Beginning	18,000	48,815	48,799	(16)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 134,960</u>	<u>\$ 634,960</u>

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 103,755	\$ 118,988	\$ 96,496	\$ (22,492)
Charges for Services	29,500	29,500	7,668	(21,832)
Miscellaneous	5,900	6,226	4,185	(2,041)
Interest	100	100	40	(60)
Total Revenues	<u>\$ 139,255</u>	<u>\$ 154,814</u>	<u>\$ 108,389</u>	<u>\$ (46,425)</u>
EXPENDITURES				
Protection to Persons and Property	311,301	414,160	402,363	11,797
Debt Service:				
Principal	12,019	2,519		2,519
Interest	3,915	3,915		3,915
Administration	126,101	102,763	86,121	16,642
Total Expenditures	<u>\$ 453,336</u>	<u>\$ 523,357</u>	<u>\$ 488,484</u>	<u>\$ 34,873</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(314,081)</u>	<u>(368,543)</u>	<u>(380,095)</u>	<u>(11,552)</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	314,081	314,081	376,500	62,419
Transfers To Other Funds				
Total Other Financing Sources (Uses)	<u>\$ 314,081</u>	<u>\$ 314,081</u>	<u>\$ 376,500</u>	<u>\$ 62,419</u>
Net Changes in Fund Balance		(54,462)	(3,595)	50,868
Fund Balance - Beginning		4,462	4,462	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (50,000)</u>	<u>\$ 867</u>	<u>\$ 50,868</u>

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

CSEPP FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 238,393	\$ 434,431	\$ 480,860	\$ 46,429
Miscellaneous		3,150	3,150	
Total Revenues	<u>\$ 238,393</u>	<u>\$ 437,581</u>	<u>\$ 484,010</u>	<u>\$ 46,429</u>
EXPENDITURES				
Protection to Persons and Property	194,345	520,245	382,368	137,877
Social Services	3,050	3,050	1,493	1,557
Administration	24,098	75,366	32,475	42,891
Total Expenditures	<u>\$ 221,493</u>	<u>\$ 598,661</u>	<u>\$ 416,336</u>	<u>\$ 182,325</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>16,900</u>	<u>(161,080)</u>	<u>67,674</u>	<u>228,754</u>
Net Changes in Fund Balances	16,900	(161,080)	67,674	228,754
Fund Balances - Beginning	<u>177,980</u>	<u>177,980</u>	<u>177,980</u>	
Fund Balances - Ending	<u><u>\$ 16,900</u></u>	<u><u>\$ 16,900</u></u>	<u><u>\$ 245,654</u></u>	<u><u>\$ 228,754</u></u>

ESTILL COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

ESTILL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

ESTILL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

	LGEA Fund	State Grants Fund	HB 502 Fund	CMRS Fund	Homeland Security Fund
ASSETS					
Cash and Cash Equivalents	\$ 570	\$ 31,248	\$ 9,960	\$ 27,465	\$ 83
Total Assets	<u>\$ 570</u>	<u>\$ 31,248</u>	<u>\$ 9,960</u>	<u>\$ 27,465</u>	<u>\$ 83</u>
FUND BALANCES					
Reserved For:					
Encumbrances	\$ 550	\$ 2,761	\$	\$	\$
Unreserved:					
Special Revenue Funds	<u>20</u>	<u>28,487</u>	<u>9,960</u>	<u>27,465</u>	<u>83</u>
Total Fund Balances	<u>\$ 570</u>	<u>\$ 31,248</u>	<u>\$ 9,960</u>	<u>\$ 27,465</u>	<u>\$ 83</u>

ESTILL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2006
(Continued)

EMS Tower Fund	Planning And Preparness Fund	Emergency Management Fund	CERT Fund	Total Non-Major Governmental Funds
\$ 7,343	\$ 2,500	\$ 3,283	\$ 5,750	\$ 88,202
<u>\$ 7,343</u>	<u>\$ 2,500</u>	<u>\$ 3,283</u>	<u>\$ 5,750</u>	<u>\$ 88,202</u>
\$	\$	\$	\$	\$ 3,311
<u>7,343</u>	<u>2,500</u>	<u>3,283</u>	<u>5,750</u>	<u>84,891</u>
<u>\$ 7,343</u>	<u>\$ 2,500</u>	<u>\$ 3,283</u>	<u>\$ 5,750</u>	<u>\$ 88,202</u>

ESTILL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2006

ESTILL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

	LGEA Fund	State Grants Fund	HB 502 Fund	CMRS Fund	Homeland Security Fund
REVENUES					
Intergovernmental	\$ 23,904	\$ 99,229	\$ 17,221	\$	\$
Charges for Services				57,908	
Miscellaneous		898			
Interest	26				
Total Revenues	<u>\$ 23,930</u>	<u>\$ 100,127</u>	<u>\$ 17,221</u>	<u>\$ 57,908</u>	<u>\$ 0</u>
EXPENDITURES					
General Government	\$ 6,350	\$	\$	\$	\$
Protection to Persons and Property	8,824	38,017		88	
General Health and Sanitation		64,507			
Social Services	1,275				
Roads	8,103				
Capital Projects		12,496	37		
Administration		519		25	
Total Expenditures	<u>\$ 24,552</u>	<u>\$ 115,539</u>	<u>\$ 37</u>	<u>\$ 113</u>	<u>\$ 0</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(622)</u>	<u>(15,412)</u>	<u>17,184</u>	<u>57,795</u>	
OTHER FINANCING SOURCES (USES)					
Transfers To Other Funds			(7,224)	(59,775)	
Total Other Financing Sources (Uses)			<u>(7,224)</u>	<u>(59,775)</u>	
Net Change in Fund Balances	(622)	(15,412)	9,960	(1,980)	
Fund Balances - Beginning	1,192	46,660		29,445	83
Fund Balances - Ending	<u>\$ 570</u>	<u>\$ 31,248</u>	<u>\$ 9,960</u>	<u>\$ 27,465</u>	<u>\$ 83</u>

ESTILL COUNTY

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

Other Supplementary Information

For The Year Ended June 30, 2006

(Continued)

EMS Tower Fund	Planning And Preparness Fund	Emergency Management Fund	CERT Fund	Total Non-Major Governmental Funds
\$	\$	\$	\$	\$
5,550	2,500	5,799		148,653
				63,458
				898
15				41
<u>\$ 5,565</u>	<u>\$ 2,500</u>	<u>\$ 5,799</u>	<u>\$ 0</u>	<u>\$ 213,050</u>
\$	\$	\$	\$	\$
				6,350
				46,929
				64,507
				1,275
				8,103
				12,533
26				570
<u>\$ 26</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 140,267</u>
<u>5,539</u>	<u>2,500</u>	<u>5,799</u>		<u>72,783</u>
		(5,462)		(72,461)
		(5,462)		(72,461)
5,539	2,500	337		322
1,804		2,946	5,750	87,880
<u>\$ 7,343</u>	<u>\$ 2,500</u>	<u>\$ 3,283</u>	<u>\$ 5,750</u>	<u>\$ 88,202</u>

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2006

**ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, business-type activities, each major fund and aggregate remaining fund information of Estill County, Kentucky.
2. No reportable conditions relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instance of noncompliance material to the financial statements of Estill County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Estill County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Estill County reported in Part C of this schedule.
7. The program tested as major programs were: Chemical Stockpile Emergency Preparedness Program, CFDA # 97.040
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Estill County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS

None

REPORTABLE CONDITIONS

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None

D. PRIOR YEAR FINDINGS

None

ESTILL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

ESTILL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2006

<u>Program Title</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>	<u>Total By CFDA #</u>
U.S Department of Commerce				
<i>Passed through NOAA</i>				
Congressionally Identified Awards and Projects	CW05-02	11.469	\$ 7,575	\$ 7,575
U.S. Elections Assistance Commission				
<i>Passed through Ky State Board of Elections:</i>				
Help America Vote Act Requirement Payments	<i>n/a</i>	93.617	85,419	85,419
U.S. Department of Homeland Security				
<i>Passed Through KY Dept of Military Affairs:</i>				
Homeland Security Grant Program	M-04647883	97.004	2,500	2,500
Chemical Stockpile Emergency Preparedness Program	M-03276169	97.040	45,332	
Chemical Stockpile Emergency Preparedness Program	M-04085614	97.040	34,744	
Chemical Stockpile Emergency Preparedness Program	M-05374698	97.040	239,823	
Chemical Stockpile Emergency Preparedness Program	PON2 06000000815	97.040	96,438	416,337 ***
Emergency Management Performance Grants	M-0502993	97.042	5,800	5,800
Total U.S. Dept of Homeland Security				<u>424,637</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 517,631</u>

*Tested as Major Program or Cluster ****

ESTILL COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2006

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Estill County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
Facsimile (502) 499-9132
www.rosscpas.com

Honorable Wallace C. Taylor, Estill County Judge/Executive
Members of the Estill County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Estill County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated February 22, 2007. Estill County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Estill County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

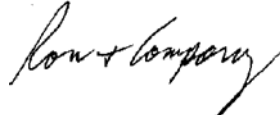
Compliance And Other Matters

As part of obtaining reasonable assurance about whether Estill County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC
Certified Public Accountants

February 22, 2007

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
Facsimile (502) 499-9132
www.rosscpas.com

Honorable Wallace C. Taylor, Estill County Judge/Executive
Members of the Estill County Fiscal Court

**Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Estill County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Estill County's major federal programs are identified in the summary of auditor results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Estill County's management. Our responsibility is to express an opinion on Estill County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Estill County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Estill County's compliance with those requirements.

In our opinion, Estill County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Estill County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Estill County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC
Certified Public Accountant

February 22, 2007

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

ESTILL COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2006**

